

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Administrative Services
Budget and Fiscal ServicesRESOLUTION M-4828
December 3, 2015**RESOLUTION**Resolution M-4828 Adopting level of Public Utilities Commission Utilities
Reimbursement Account User Fees, effective January 1, 2016.**SUMMARY**

This resolution adopts Public Utilities Commission Utilities Reimbursement Account (PUCURA) user fees as follows:

Electric Corporations	0.00033	\$/ kwh
Gas Corporations	0.00093	\$/therm
Heat Corporations	0.01918	\$/thousands lbs. steam
Water and Sewer System Corporations	0.01168 (1.17%)	x Revenue
Telephone and Telegraph Corporations	0.00226 (0.23%)	x Revenue

At the current fee levels and appropriations granted in 2015-16 Governor's Budget, the estimated year end PUCURA fund reserve is forecasted to be \$33,951,000 which is insufficient reserve according to the CPUC's PUCURA fund reserve policy. Additionally, revenues resulting from current user fees do not align with budgeted expenditures by utility class, per Public Utilities Code Section 432. Accordingly, the user fees adopted in this resolution both realign revenue collection by utility class, and increase revenues to PUCURA. User fee changes will go into effect January 1, 2016.

BACKGROUND

CPUC uses Public Utilities Code as the basis for its methodology to annually assess user fees for energy, water and telecommunication utilities.

Public Utilities Code Section 431:

The commission shall annually determine a fee to be paid by every electrical, gas, telephone, telegraph, water, sewer system, and heat corporation and every other public utility providing service directly to customers and subscribers and subject to the jurisdiction of the commission other than a railroad, except as provided in Article 2 (commencing with Section 421). The annual fee shall be established to produce a total amount equal to that amount established in the authorized Commission budget for the same year, including adjustments for

increases in employee compensation, other increases appropriated by the Legislature, and an appropriate reserve to regulate public utilities less the amount to be paid from special accounts or funds pursuant to section 402, reimbursements, federal funds, and any other revenues, and the amount of unencumbered funds from the preceding year.

Public Utilities Code Section 432:

The Commission shall establish the fee pursuant to Section 431 with the approval of the Department of Finance and in accordance with all of the following:

- a. In its annual budget request, the commission shall specify both of the following:
 1. The amount of its budget to be financed by the fee
 2. The dollar allocation of the amount of its budget shall be financed by fee by each class of public utility subject to the fee. The fee allocation among classes of public utilities shall reflect expenditures by the commission on regulatory and other authorized activities affecting each respective class, and shall bear the same ratio that the commission's workload for each class of public utility subject to the fee bears to the commission's total workload for all public utilities subject to the fee.
- b. The commission may establish different and distinct methods of assessing fees for each class of public utility, if the revenues collected are consistent with paragraph (2) of subdivision (a), except that the commission shall establish a uniform charge per kwh for sales in kwh for the class of electrical corporations and a uniform charge per therm for sales in terms for the class of gas corporations.

DISCUSSION

PU Code provides that revenues received from each utility class should proportionately reflect expenditures by CPUC budgeted to regulate respective utility classes. As this is the first time in more than eight years that CPUC has recommended adjustments to user fees to realign revenues received for PUCURA with expenditures within the Governor's budget, the proposed adjustments (as a percentage change from the current fees) are relatively large. CPUC expects that future annual assessments will require much smaller changes to user fees by utility class over time.

Methodology: Calculating PUCURA User Fees

1. Revenue Forecasting

In September 2014, CPUC forecasted 2015-16 revenues for energy, water and telecommunication utilities for the first time using a new methodology. While these revenue

estimates were included in fund condition projections as part of the Governor's proposed budget (January 2015) they are *not* being used as part of the user fee adjustments described herein. Rather, for all utility classes 2014-15 actual revenues received by CPUC have been used to predict 2015-16 revenues. CPUC will continue to develop its revenue forecasting methodology with the aim of achieving a forecast closer to realized actuals.

Energy

Compared to initial forecasts¹, year-end actual energy corporation revenue for 2014-15 resulted in significantly lower revenue for gas and steam corporations, but higher revenue for electric corporations (see Table 1). 2014-15 actual revenue were used for the 2015-16 revenue forecast because CPUC believes they represent a more conservative and accurate revenue forecast for 2015-16.

Table 1. Energy revenues

Utility Class	Current user fees	2013-14 Revenue (Actual)	2015-16 Revenue (Initial forecast)	2014-15 Revenue (Actual)	Equivalent Energy base assumed for user fee adjustment
Electric Corporations	0.00024 \$/kwh	\$45,245,400	\$44,719,800	\$47,166,063	196,619,199,417 kwh
Gas Corporations	0.00068 \$/therm	\$13,186,835	\$12,805,623	\$8,109,048	11,925,070,926 therms
Heat Corporations	0.014 \$/thousand lbs. steam	\$10,095	\$10,095	\$8,429	602,098 thousand lbs. steam

For electric, gas and heat corporations, current user fee rates are based on physical units of energy sales (rather than a percentage of revenue, as with water). Dividing actual revenues received by CPUC in 2014-15 year by the current user fee, provides an estimation of the energy base for each industry (kwh, therms, pounds of steam).²

Water

For 2015-16 water utility revenue, CPUC assumed 2014-15 actual year end revenues, reduced by 10 percent. Water revenue is difficult to forecast for 2015-16 in large part because of the unpredictability caused by the California drought, and the mandatory 25 percent water

¹ To initially forecast relative energy sales, CPUC looked at energy forecast reports, CPUC general rate case documents and reported energy sales from the State's three largest energy utilities: PG&E, SCE and SDG&E. The resulting forecast submitted in the Governor's proposed budget for 2015-16 (January 2015) predicted that electric and gas corporation energy consumption and sales would be reduced by approximately 5% compared to 2013-14. This revenue forecast was not used however for user fee adjustments described herein.

² This methodology assumes that utilities are accurately reporting and remitting their user fees to the CPUC based on energy sold or total revenues, which are self-reported to the CPUC. In 2015 CPUC will begin auditing user fee statements and companies to ensure utility compliance. Before 2015, utility user fee remittances were not systematically audited.

restrictions imposed by the Governor in April 2015.³ Water utilities have responded with increases in rates and surcharges to offset this dramatic reduction in consumption. CPUC assumed that even with these rate adjustments, statewide water utility revenues will be lower in 2015-2016 than in previous years. Without additional data or information that could inform this forecast, CPUC assumed a 10 percent reduction in revenue due to the drought. This translates to an expected reduction of approximately \$2.5 million.

Table 2. Water revenue

Utility Class	Current User Fees	Unit	2015-16 Revenue (Initial forecast ⁴)	2014-15 Revenue (Actual)	2015-16 Revenue Forecast
Water and Sewer	1.5%	x Revenue	\$27,401,739	\$24,545,000	\$22,091,000

Telecommunications

CPUC's initial 2015-16 revenue forecast assumed 2013-14 reported revenues by telecommunication companies. Revenues for telecommunications corporations have been declining in recent years, in part because of the decrease of land-line phones, but also because of increased competition - customers are paying less for their wireless services. 2014-15 actual revenues were significantly less than CPUC's initial revenue forecasts (consistent with this trend), and represent a more conservative estimate of revenue.⁵ For this reason, 2014-15 actual telecommunication revenues were used for this analysis.

Table 3. Telecommunications revenue

Utility Class	Current User Fees	Unit	2013-14 Revenue	2015-16 Revenue (Initial forecast)	2014-15 Revenue (Actual)
Telephone	0.18%	x Revenue	\$27,365,474	\$25,228,800	\$23,425,748
VSPs	0.02%	x Revenue	\$831,611	\$1,200,000	\$954,917

2. Revenue and Expenditure Analysis

CPUC's PUCURA budget (authorized expenditures) by utility class are displayed in the Governor's 2015-16 Budget under Program 6680, Regulation of Utilities. This methodology assumes budgets by program element (Table 4) as the basis of comparison against forecasted revenues by utility class. Program components (the most granular level of detail by utility class (electricity, gas, sewer, steam, etc.) are not displayed in the Governor's Budget, component

³ https://www.gov.ca.gov/docs/4.1.15_Executive_Order.pdf

⁴ Initial forecast for 2015-16 was actual revenues received in 2013-14.

⁵ VSP user fees are reviewed and updated accordingly using methodology established by the CPUC Communications Division.

budgets area assumed to roll up into the program elements of energy, water and telecommunications, respectively.

Table 4. 2015-16 Governor's budget structure, PUCURA

Program	Element (These are the budget categories used for user fee analysis)	Component (not displayed in Gov. Budget)
Regulation of Utilities (6680)	Energy (6680055)	Electric Corporations Gas Corporations Steam Corporations
	Water (6680064)	Water Corporations Sewer Corporations
	Communications (6680073)	Telephone and Telegraph Video Service Providers

The Office of Ratepayer Advocates (ORA, Fund 3089) is funded through PUCURA user fees, as well as reimbursements. ORA is represented as Program 6695 in the 2015-16 Governor's Budget. ORA's Fund 3089 receives an annual revenue transfer from PUCURA in the total amount of its annual appropriation. ORA is not considered an expenditure from PUCURA, however the revenue transfer of ORA's appropriation significantly negatively impacts PUCURA's fund condition, and must be accounted for in the assessment of user fees. For this reason, ORA's expenditures were added to Program 6680 expenditures and allocated across energy, water and telecommunications program elements⁶. The allocation ratios are based on work done by ORA in support of these areas.

Table 5. Proportional revenues vs. expenditures by utility class

Utility class	User Fee Revenue (2014-15)	Program Expenditures ⁷	ORA Allocated	CPUC + ORA Expenditures	Annual Net Revenue	Revenue	Expenditures
Energy	\$55,306,000	\$59,195,000	\$13,688,000	\$72,883,000	\$-17,577,000	53%	60%
Water	\$24,545,000	\$11,234,000	\$7,151,000	\$18,385,000	\$6,160,000	24%	15%
Telco.	\$24,381,000	\$23,077,000	\$6,129,000	\$29,206,000	\$-4,825,000	23%	24%
ORA		\$26,968,000					
Total	\$104,232,000	\$120,474,000	\$26,968,000	\$120,474,000	\$-16,242,000	100%	100%

After ORA's expenses are allocated the fraction of each utility's proportional revenue is compared to the equivalent expenditures by utility class. Energy utility revenue is shown above to be proportionately low, relative to CPUC expenditures in energy, whereas water utility's revenue is proportionately high.

⁶ Other non-CPUC or ORA expenditures out of PUCURA, including the State's assessment against the fund for the FiScal system, were not allocated as an expense for the purposes of user fee adjustments. These expenditures decrease PUCURA's fund reserve, and are ultimately recaptured by user fee adjustments meant to keep the fund reserve above its minimum per PUC Fund Reserve Policy (currently 40 percent of annual PUCURA appropriations).

⁷ From the 2015-16 Governor's Budget; expenditures do not include reimbursable spending authority.

3. Fund Reserve Analysis

Annual net expected revenue for 2015-16 (shown in Table 6) is -\$16.2 million. CPUC's fund reserve policy for PUCURA directs CPUC to maintain a fund reserve of 40-80 percent of its annual CPUC operating expenses, including ORA. Table 7 shows that the expected fund reserve at the end of 2015-16 will be approximately 28 percent of expected operating expenses, which is below the fund reserve policy range.

Table 6. Fund reserve summary

A)	Forecasted user fees for 2015-16 (Proposed Governor's Budget)	\$112,445,000
B)	2015-16 Forecast (actual 2014-15 user fees, with water revenues reduced by 10%)	\$101,778,000
C)	Difference (A-B)	\$10,667,000
D)	Forecasted user fees for 2014-15 (Proposed Governor's Budget)	\$112,445,000
E)	Actual 2014-15 user fees	\$104,232,000
F)	Difference (D-E)	\$8,213,000
G)	Forecasted beginning 0462 Fund Reserve for 2015-16 (Governor's Budget)	\$52,831,000
H)	G-C-F (Forecasted reserve, less difference between user fee forecasted revenue and what was actualized in 2014-15. This is the revised expected fund balance at end of 2015-16.)	\$33,951,000
I)	Total CPUC + ORA Expenditures 2015-16 (Governor's Enacted Budget)	\$120,474,000
J)	PUCURA Fund Reserve Policy Minimum	40%
K)		\$48,190,000
L)	PUCURA Fund Reserve Policy Maximum	80%
M)		\$96,379,000
	Fund Reserve (as a % of Exp) (H/I)	28%
N)	Required net revenue (K-H, fund reserve policy minimum, minus forecasted fund reserve, adjusted)	\$14,239,000

4. User Fee Adjustment

To arrive at new user fees, user fees were adjusted in two steps. In the first step, revenues were aligned to match expenditures by utility class. These “required” revenues represent the revenue necessary to bring the user fees to parity with expenditures by utility class.

I. Realignment

Table 7. Initial revenue requirements

Utility Class	Required revenue (for annual net \$0)	Expend (Incl. ORA), 2015-16 Budget
Energy	72,883,000	72,883,000
Water	18,385,000	18,385,000
Telecommunications	29,206,000	29,206,000
Total	120,474,000	120,474,000

II. Net Revenue Adjustment

In the second step, net revenue requirements (identified by the fund analysis, above) were incorporated into the required revenue.

Table 8. Required revenue summary

Required revenue (for annual net \$0)	\$120,474,000
Total additional net revenue required [Table 7. Desired Net Revenue (N)]	\$14,239,000
Percent increase	12%
Total revenue required	\$134,713,000

Rather than collecting \$14,239,500 in a single year, CPUC has chosen to adjust user fees so that this amount will be collected over three years, with the anticipation that in three years rates could potentially be reduced to achieve an annual net revenue of \$0 (assuming PUCURA’s fund reserve is above its minimum). Collecting over three years will allow CPUC time to annually analyze actual revenues received, and make any needed adjustments as necessary over three years:

Table 9. Forecasted annual revenue collection

Annual revenue collection	Net revenue to be collected	Percent increase by year	Forecasted total revenue collected
Year 1 annual net revenue (2015-16)	\$4,747,000	3.9%	\$125,221,000 (\$120,474,000+\$4,747,000)
Year 2 annual net revenue (2016-17)	\$4,747,000	3.9%	Not yet forecasted
Year 2 annual net revenue (2017-18)	\$4,747,000	3.9%	
Total additional revenue collected over three years	\$14,241,000	12%	

The net revenue requirements will be shared by each utility class through an annual increase of 3.9% over the course of 3 years, as summarized below:

Table 10. Revenue requirements by utility class

Utility Class	Required revenue (for annual net \$0)	Increase for net revenue (3.9%)	Net revenue requirement	Revenue requirements 2015-16	Proportional Revenues
Energy	\$72,883,000	x 0.039	\$2,872,000	\$75,755,000	60%
Water	\$18,385,000	x 0.039	\$724,000	\$19,109,000	15%
Telco	\$29,206,000	x 0.039	\$1,151,000	\$30,357,000	24%
Total	\$120,474,000		\$4,747,000	\$125,221,000	1

III. User Fee Calculations

After revenue requirements were calculated for each budget-element-level utility class (e.g. energy), the revenue requirements were further divided by budget-component utility class (e.g. electric, gas, heat). This was done proportionally to reported revenues by utilities in 2014-15. New user fees were calculated by dividing required revenue (dollars) by the assumed equivalent energy or revenue base, assumed in the revenue forecast, to achieve adjusted user fee metrics:

Table 12. User fee calculation

	Equivalent energy or revenue base (Tables 1, 2 and 3)	Unit			Required revenue, assuming split by 2014-15 revenue actual ratios ⁸	Resulting (new) user fee
Electric Corp.	196,619,199,417	kwh	\$75,755,000	0.60	\$64,636,160	0.00033
Gas Corp.	11,925,070,926	Therms			\$11,107,294	0.00093
Heat Corp.	602,098	thousands lbs. steam			\$11,546	0.01918
Water and Sewer	\$1,636,320,265	Revenue (\$)	\$19,109,000	0.15	\$19,109,000	0.01168
Telephone	\$13,014,304,817	Revenue (\$)	\$30,357,000	0.24	\$29,402,082	0.00226
VSPs	\$5,519,756,590	Revenue (\$)			\$954,918	Not changed as part of proposed fee adjustment
Total			\$125,221,000		\$125,221,000	

⁸ Electric, gas and heat corporations' user fees ultimately increased by the same proportion (37%) because user fee adjustments were done primarily at the "energy" (budget element) level.

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MLC/amk/ccm
Resolution M-4828
Administrative Services

December 3, 2015

The following table summarizes the proposed changes to PUCURA user fees:

Table 11. Proposed user fee change summary

Utility Class	Current User Fees	Unit	Resulting (new) user fee using forecasted revenue base	Unit	Difference (current - new revenue)		% Difference ⁸
Electric Corp	0.00024	\$/ kwh	0.00033	\$/ kwh	0.00009	\$/ kwh	37.0%
Gas Corp	0.00068	\$/therm	0.00093	\$/therm	0.00025	\$/therm	37.0%
Heat Corp	0.014	\$/thousand s lbs. steam	0.01918	\$/thousand s lbs. steam	0.005	\$/thousand s lbs. steam	37.0%
Water and Sewer	1.50%	x Revenue	0.01168 (1.17%)	x Revenue	-0.003	x Revenue	-22.1%
Telephone	0.18%	x Revenue	0.00226 (0.23%)	x Revenue	0.000	x Revenue	25.5%
VSPs	0.0173%	x Revenue	Not changed in this resolution				

COMMENTS ON DRAFT RESOLUTION

In compliance with Public Utilities Code Section 311 (g), Administrative Services mailed a Notice of Availability of all electric, gas, telephone and water corporations informing them that this draft resolution is available at the Commission's website. The Notice of Availability service list was based on utility contact information maintained by CPUC's Fiscal Office, which receives user fee revenue payments from utilities.

Comments must be submitted by November 23, 2015. No comments were received.

THEREFORE, IT IS ORDERED THAT:

Effective January 1, 2016 the current PUCURA user fees shall be revised as follows:

Electric Corporations	0.00033	\$/ kwh
Gas Corporations	0.00093	\$/therm
Heat Corporations	0.01918	\$/thousands lbs. steam
Water and Sewer System Corporations	0.01168 (1.17%)	x Revenue
Telephone and Telegraph Corporations	0.00226 (0.23%)	x Revenue

DRAFT

MLC/amk/ccm
Resolution M-4828
Administrative Services

December 3, 2015

I hereby certify that the Public Utilities Commission adopted this Resolution at the meeting on December 3, 2015.

Timothy J. Sullivan
Executive Director

Certificate of Service

I certify that I have by postal mail, this day, served Proposed Resolution No. M-4828 on all parties as shown on the attached lists.

Dated October 30, 2015 at San Francisco, California.

_____/s/AUDREY KITZES

Audrey Kitzes

Parties should notify the Budget Office, California Public Utilities Commission, 505 Van Ness Ave, San Francisco, CA 94102, of any change of address to ensure that they continue to receive documents. You must indicate the Resolution number on which your name appears.

DRAFT

MLC/amk/ccm
Resolution M-4828
Administrative Services

December 3, 2015

Resolution M-4828 Service List